



RURAL LABOR MARKETS IN TRANSITION: DIFFERENCES IN PAST TRENDS, CURRENT CONSTRAINTS, AND FUTURE POLICIES

by **Karen Macours** kmacours@jhu.edu

Changes in the rural labor market

BEFORE 1990, THE ORGANIZATION of the agricultural sector, and of rural life generally, was relatively similar across Eastern Europe and the Soviet Union. Today, in these transition countries, the rural and agricultural labor markets differ quite substantially. This brief examines the dynamics that have affected the rural labor market in these countries, the heterogeneity in market outcomes and the consequences for productivity and welfare. The brief ends with a review of quantitative evidence of success stories of labor market policies, and indicates the need for a context-specific approach in future policy experiments.

Migration and demographics

Across the transition countries, domestic and international migration have affected the size and composition of the rural population in strikingly different ways. Evidence suggests that the initial negative economic shock of transition triggered much migration from cities to rural areas. Access to land, such as households plots for subsistence, provided a short-term coping strategy in some countries. In the poorer countries of central Asia and the Transcaucusus, labor reallocation to rural areas seems to be more permanent. This sharply contrasts with the typical experience in developing countries, where the labor force

tends to migrate to urban areas. The reverse pattern of urban-to-rural migration in low-income transition countries can be explained by privatization policies that physically distributed land, helping offset the negative shock to the urban economies. Labor-intensive agricultural self-employment provided an alternative income mechanism. This was especially important where people suffered from violent conflicts or natural disasters, such as Armenia, Georgia, and Tajikistan.

In countries where land was restituted to the former owners, urban-to-rural migration was more limited and concentrated among older people, while many young people left the rural areas in search of better opportunities. This was particularly true in Bulgaria, Romania, Latvia and Lithuania, where land access proved to be an important safety net for the elderly. The restitution process, by allocating land to the older population, had drastic effects on the demographic structure of the rural population. Land access did not necessarily play the same role in the wealthier central European countries, like the Czech Republic, Slovakia, and Hungary, where formal security systems, particularly pensions, helped older people cope with the negative shocks. In Albania, the Transcaucusus, and some central Asian countries, international migration also contributed to the outflow of young males particularly. Conversely, net migration is positive in many central European countries and Russia.

As a result of the differences in migration patterns, the share of the elderly in the rural population is particularly large in the Baltics, Belarus, Bulgaria, and Romania. It is much lower in central Asia. The share of young people (25-39 years old) is relatively high in the rural areas in the Transcaucasus, and especially low (below 20%) in Bulgaria, the Baltics, and the European newly independent states (NIS). In these countries, probably due in part because of the outflow of young people, the pool of educated people is particularly small in rural areas, which has repercussions for the potential of agricultural and rural growth. Nevertheless, remittances from those leaving the country help increase household welfare, and remittances are a particularly important source of income in Albania, Bosnia and Herzegovina, Georgia, and Moldova. Remittances have increased substantially in many other countries in recent years.

The net effect of the different migration patterns and natural growth is that the rural population increased as a share of total population in Azerbaijan, Estonia, Kazakhstan, the Kyrgyz Republic, Latvia, Moldova, Slovenia, Tajikistan, and Uzbekistan. Data are insufficient to show how this growth translates into changes in rural employment, yet the data do indicate that the rural population remains relatively high in all countries, with at least 25% of total population in rural areas, and more than 50% in some countries. The share of agriculture in total employment ranges from 5% in high-income countries to more than 40% in the poorer countries.

Agricultural labor market adjustments

Transition had a dramatic effect on agricultural employment in many countries. Labor use in agriculture declined by half in countries such as the Czech Republic, Estonia, Hungary and Slovakia, and increased by more than 50% in Armenia, Georgia, and the Kyrgyz Republic. These variations in adjustment led to a divergence of agricultural labor use, with labor use declining most strongly in countries and regions where labor use and labor intensity already were relatively low, and increasing where agriculture employment was relatively high. These vastly different adjustments exist not only between countries but also within single countries.

Price liberalization and the reduction of subsidies caused a dramatic decline in the agricultural terms of trade in all but the poorest countries. This implied a strong reduction in the demand for agricultural labor. Yet, liberalization also changed the relative factor

costs. In many cases, price liberalization caused prices for other inputs (especially capital inputs) to increase relative to wages. As a consequence, an input substitution effect mitigated the reduction in input demand.

Land privatization and the reorganization of farms strongly affected labor adjustment in transition countries and help explain heterogeneity across countries. First, the outflow of labor has been strongest in the Czech Republic, Estonia, Hungary and Slovakia, where privatized collective and state farms, with independent company management facing hard budgets, have shed a large number of workers beyond those that voluntarily left the farms for other employment. Second, an inflow or preservation of the labor force in agriculture coincided with the growth of household farming in countries like Albania, Armenia, Georgia, and the Kyrgyz Republic that are characterized by relatively labor-intensive production processes. The breakup of large-scale collective and state farms led to higher gains in technical efficiency, with relatively small losses of scale economy, and substitution of relatively abundant labor for other inputs. In many of these countries, where land privatization occurred through physical distribution of plots, a sudden inflow of labor into agriculture can be observed. Third, a relatively large reallocation of labor to individual farms also occurred in some of the poorer EU accession countries, like Bulgaria, Latvia, Lithuania and Romania, mainly as an absorption mechanism (and safety net) for laid-off workers from collective farms and industry. Fourth, in countries with land and capital-intensive production systems but with continued soft budget constraints during the first decade of transition, such as Kazakhstan, Russia and Ukraine, labor outflows were initially much less important. Households used mixed strategies by combining household plot farming with continued large farm employment. Large farms seem to have partially compensated for excess labor by lowering wages *de facto* (e.g., through wage arrears) and reducing working time.

Differences in adjustment patterns have been reinforced by variations in social security and rural service delivery systems. In relatively high-income countries, more extensive social security systems provide higher unemployment benefits and pensions for laid-off workers. In low-income countries with poor social security and very low pensions, household farming contributes to both food and social security. The outflow of labor was constrained in countries where large farms continued to be the main institutional provider of rural social services and, in some cases, of input and output

marketing. Employment on these farms not only provided wage benefits but also access to social services and market channels for rural households.

Availability and attractiveness of alternative employment opportunities play a role in the different adjustment patterns across countries. General reforms both destroyed and created jobs in other sectors, and off-farm labor opportunities differ across time and countries. However, in almost all countries, with the notable exceptions of Russia and Tajikistan, added value has recently been increasing more in the other sectors than in the agricultural sector. Over the long run, one would expect this to result in a labor outflow towards other sectors. Despite the drastic labor adjustments that have already occurred, labor in agriculture might still have a certain level of stickiness, related to characteristics of the rural labor force and mobility costs in general.

It is important to consider changes in productivity that are related to the differences in labor market adjustments and output changes. The author and a colleague distinguish four patterns. First, in labor-intensive low-income countries, where physical distribution of land coincided with labor inflows, yields (in particular of labor intensive crops) and livestock output increased but average labor productivity initially decreased. Second, in high-income countries, the rapid and strong outflow of labor from agriculture after privatization resulted in major gains in labor productivity on large farms. Yield increases were much more modest and only started in the mid-1990s. Third, in the poorer EU accession countries, land privatization through restitution in the absence of a social security mechanism, led to the absorption of a typically older labor force into semi-subsistence farms. As these countries had relatively developed and capital-intensive agricultural production systems, productivity gains from shifting to small farms were less than in poor labor-intensive agricultural countries, while the costs in terms of losses of scale economies and technology disruptions were larger. Fourth, in the higher-income NIS countries, limited labor outflows and farm restructuring did not lead to major productivity improvements until 1998. After reaching their lowest levels in 1998, output and yields rebounded.

Labor market interventions

Human capital constraints and labor market rigidities are key factors affecting rural labor markets in transition countries today. The literature on the impact of policies that specifically target rural areas and/or

agricultural labor in transition countries is relatively thin, but there is a growing body of evidence related to general labor market policies in transition countries.

Passive labor market policies (i.e., unemployment benefits, pensions, etc.) played an important role in central Europe in allowing labor to flow out of agriculture. Micro-evidence for the Czech Republic confirms the positive role of such policies. However, evidence from Slovenia, warns that there might be important disincentive effects related to overly generous policies.

A recent review of the evidence of active labor market policies including several transition countries shows that, in general, employment services and (re-) training programs are found to have positive effects. Programs focused on wage subsidies are found to have no (or even a negative) effect, while the evidence on public works is more mixed. The positive effects of job matching services suggest that while frictions in the labor market might exist, they can be addressed relatively cheaply, mainly by solving the asymmetric information problem. Micro-evidence from Poland and Slovakia indicate positive effects of (re-) training programs. These results suggest that targeted training programs can help overcome the human capital disadvantage, an encouraging finding given our earlier discussion on human capital constraints.

A particularly interesting success story seems to be the Emergency Demobilization and Reintegration project in Bosnia and Herzegovina. This program combined re-education and training with employment services and had a major impact both on the likelihood of employment, and on wages. Contributing to its success was the emphasis on on-the-job training. Firms were paid to provide this training, and afterwards hired 80% of the trained workers. While being careful about generalizing the project's lessons because of its post-conflict setting, results do suggest that this type of active intervention can be successful in addressing shortages of certain skills and match the interests of employers and potential employees alike.

Programs that provide micro-enterprise/self-employment assistance through loans or grants have been used in a number of countries. Evaluations of programs in Bulgaria and Romania report positive results, but programs in the Czech Republic, Hungary and Poland show a mixed (and sometimes negative) effect on earning. Given that these programs are relatively widespread, further impact evaluations on their specific contributions in a transition context would be useful.



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Author

Karen Macours

Johns Hopkins University,
USA

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BASIS CRSP

Comments encouraged:
Department of Agricultural
and Applied Economics,
University of Wisconsin,
Madison, WI 53706 USA
basis-me@facstaff.wisc.edu
tel: +608-262-5538
fax: +608-262-4376
<http://www.basis.wisc.edu>

Implications for policy

The large differences in agricultural labor adjustments across countries suggest care in drawing general policy implications. Policy choices that have played a key role in agricultural labor adjustments—price and trade liberalizations, farm restructuring and land privatization—have largely been settled in most transition countries. Therefore, future policies might have to look toward context-specific policies that could make labor allocation more efficient. Both efficiency and welfare implications should be carefully considered.

Where the agricultural labor force remains too high because of rigidities and adjustment costs in the labor market, policies to facilitate mobility to other sectors or regions will be key. It is worth considering a role for training and job-matching programs. Depending on the context, there might also be payoffs through improving infrastructure (if rigidities result from lack of access to jobs or information about jobs), housing policy (if lack of affordable housing is preventing people from moving to urban areas), and/or facilitating the creation of rural off-farm (self-) employment.

In countries where agricultural employment remains important as a social protection mechanism, other (or additional) policies are probably appropriate. If affordable, changes in the social security system (particularly pensions) might decrease the dependence of the older population on land access. This could free up land for more efficient users, particularly if there are no important constraints on land leasing markets. Such policies might be worth considering in countries where subsistence farming by the older population is a potential constraint for efficiency improvements in agriculture.

In contrast, in the lower-income countries of central Asia and the Transcaucasia, increasing the competitiveness of family farm intensive agriculture might promise the best results. These are countries with a large share of the population employed in agriculture, and where small-scale agricultural production might have an important

comparative advantage. In most of these countries, land distribution policies have allocated land to a more dynamic population, and policies that increase the value of that land will be key to increased returns to family labor and agricultural efficiency. Labor market policies themselves are probably less useful in this context, but policies aimed at public goods and at solving coordination problems can play an important role in improving rural incomes. In countries where remittance income is important, complementary policies that facilitate the use of this income for productive investments could have a high payoff. Investment in infrastructure and service delivery in rural areas might prevent a flow of human capital out of rural areas.

There is relatively little quantitative evidence of the impact of policies targeted at rural or agricultural labor markets in transition countries. Given the obvious importance of these markets for rural growth and welfare, careful impact evaluations of new policy experiments are likely to have very high payoffs.



Further reading

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